

**ALPENA TOWNSHIP
ALPENA COUNTY, MICHIGAN**

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended March 31, 2008

STRALEY, ILSLEY & LAMP P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Alpena Township
Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Alpena Township, Michigan** as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Alpena Township, Michigan's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Alpena Township, Michigan** as of March 31, 2008, and the respective changes in financial position and cash flows, were applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Individual Fund Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Alpena Township, Michigan's** basic financial statements. The accompanying information identified in the table of contents as individual financial statements and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

STRALEY, TUSLEY & LAMP P.C.

September 15 2008

Alpena Township Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended March 31, 2008. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Alpena Township financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Township's governmental funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for the General Fund

Other Supplemental Information

Individual Fund Statements

Financial Highlights

- The assets of the Alpena Township exceeded its liabilities at the close of the most recent fiscal year by \$10,870,494 (*net assets*). Of this amount, \$2,854,923 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Alpena Township's total net assets decreased by \$141,709. This was the result of a decrease in the net assets of governmental activities of \$206,834 along with an increase in the net assets of business-type activities of \$65,125.

Alpena Township Management's Discussion and Analysis

- The Alpena Township provided services of \$1,791,421 in governmental activities and \$2,014,239 of business-type activities for expenses totaling \$3,805,660 during the year ended March 31, 2008.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$920,418 or 51 percent of total general fund expenditures and operating transfers to other funds in comparison to \$1,166,749 at the close of the prior year, a decrease of \$246,331.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Alpena Township's basic financial statements. The Alpena Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Alpena Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Alpena Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Alpena Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Alpena Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Alpena Township include legislative, general government, public safety, public works, health and welfare and culture and recreation. The business-type activities of the Alpena Township include providing water and sewer services.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Alpena Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Alpena Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Alpena Township Management's Discussion and Analysis

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Alpena Township maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund.

Proprietary funds. The Alpena Township maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Alpena Township uses enterprise funds to account for its Water and Sewage fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewage fund which is considered to be a major fund of Alpena Township.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Alpena Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the general funds' budget comparisons.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Alpena Township, assets exceeded liabilities by \$10,870,494 at the close of the most recent fiscal year.

Alpena Township Management's Discussion and Analysis

By far the largest portion of the Alpena Township's net assets \$8,015,571 (74 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Alpena Township uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Alpena Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

ALPENA TOWNSHIP'S, Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 1,031,999	\$ 1,166,749	\$ 5,105,323	\$ 5,647,992	\$ 6,137,322	\$ 6,814,741
Capital assets	2,484,711	2,543,658	9,141,998	9,323,323	11,626,709	11,866,981
Total assets	3,516,710	3,710,407	14,247,321	14,971,315	17,764,031	18,681,722
Current liabilities	111,581	98,444	3,395,818	3,961,854	3,507,399	4,060,298
Noncurrent liabilities	-	-	3,386,138	3,609,221	3,386,138	3,609,221
Total liabilities	111,851	98,444	6,781,956	7,571,075	6,893,537	7,669,519
Net assets:						
Invested in capital assets, net of related debt	2,484,711	2,543,658	5,530,860	5,424,102	8,015,571	7,967,760
Restricted	-	-	-	-	-	-
Unrestricted	920,418	1,068,305	1,934,505	1,976,138	2,854,923	3,044,443
Total net assets	\$ 3,405,129	\$ 3,611,963	\$ 7,465,365	\$ 7,400,240	\$ 10,870,494	\$ 11,012,203

The balance of unrestricted net assets \$2,854,923 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Alpena Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets decreased by \$141,709 during the current year. This was the result of business-type activities ongoing revenues outstripping similar increases in ongoing expenses by \$65,125. Governmental activities, experienced a decrease of \$206,834 in net assets during the current fiscal year. While property tax revenue was up slightly, the substantial increase in expenditures is what attributed to the decrease in revenue over expenses.

Alpena Township Management's Discussion and Analysis

ALPENA TOWNSHIP'S, Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 82,777	\$ 105,749	\$ 2,052,342	\$ 2,156,196	\$ 2,135,119	\$ 2,261,945
Operating grants and Contributions	47,398	47,082	-	-	47,398	47,082
Capital grants and Contributions	4,642	-	-	-	4,642	-
General revenues:						
Property taxes	736,061	720,437	-	-	736,061	720,437
Other	713,709	706,209	27,022	38,951	740,731	745,160
Transfers	-	-	-	-	-	-
Total revenues	<u>1,584,587</u>	<u>1,547,940</u>	<u>2,079,364</u>	<u>2,276,004</u>	<u>3,663,951</u>	<u>3,823,944</u>
Expenses:						
Legislative	12,655	9,238	-	-	12,655	9,238
General government	427,172	435,197	-	-	427,172	435,197
Public safety	782,850	684,749	-	-	782,850	684,749
Public works	224,016	160,898	-	-	224,016	160,898
Culture and recreation	33,290	26,293	-	-	33,290	26,293
Health – welfare	26,331	22,230	-	-	26,331	22,230
Water – sewage	-	-	2,014,239	1,881,216	2,014,239	1,881,216
Other	285,107	286,343	-	-	285,107	286,343
Total expenses	<u>1,791,421</u>	<u>1,624,948</u>	<u>2,014,239</u>	<u>1,881,216</u>	<u>3,805,660</u>	<u>3,506,164</u>
Change in net assets	(206,834)	(45,471)	65,125	313,931	(141,709)	268,460
Net assets – beginning	<u>3,611,963</u>	<u>3,657,434</u>	<u>7,400,240</u>	<u>7,086,309</u>	<u>11,012,203</u>	<u>10,743,743</u>
Net assets – end	<u>\$ 3,405,129</u>	<u>\$ 3,611,963</u>	<u>\$ 7,465,365</u>	<u>\$ 7,400,240</u>	<u>\$ 10,870,494</u>	<u>\$ 11,012,203</u>

Cost of Services - Governmental Activities

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2008	2007	2008	2007	2008	2007
Functions/Programs:						
Legislative	\$ 12,655	\$ 9,238	\$ -	\$ -	\$ (12,655)	\$ (9,238)
General government	427,172	435,197	56,729	42,210	(370,443)	(392,987)
Public safety	782,850	684,749	47,398	16,592	(735,452)	(668,157)
Public works	224,016	160,898	-	-	(224,016)	(160,898)
Culture and recreation	33,290	26,293	4,642	-	(28,648)	(26,293)
Health and welfare	26,331	22,230	-	-	(26,331)	(22,230)
Other	285,107	286,343	26,048	94,029	(259,059)	(192,314)
Total expenses	<u>\$ 1,791,421</u>	<u>\$ 1,624,948</u>	<u>\$ 134,817</u>	<u>\$ 152,831</u>	<u>\$ (1,656,604)</u>	<u>\$ (1,472,117)</u>

Alpena Township Management's Discussion and Analysis

REVENUES

Though property taxes continue to be our largest source of revenue, we had only a minimal increase again this fiscal year. Total millage for the Alpena Township homestead property was 22.8105 and non-homestead property was 40.8105.

State revenue increased slightly and may continue to do so if the State's economy continues to improve.

Cost of Services - Business-type activities

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2008	2007	2008	2007	2008	2007
Functions/Programs:						
Water and sewage	\$ 2,014,239	\$ 1,881,216	\$ 2,052,342	\$ 2,156,196	\$ 38,103	\$ 274,980
Total expenses	<u>\$ 2,014,239</u>	<u>\$ 1,881,216</u>	<u>\$ 2,052,342</u>	<u>\$ 2,156,196</u>	<u>\$ 38,103</u>	<u>\$ 274,980</u>

Financial Analysis of the Government's Funds

As noted earlier, the Alpena Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Alpena Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Alpena Township's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Alpena Township's governmental funds (general fund) reported ending fund balances of \$1,028,850 a decrease of \$137,899 in comparison with the prior year. All of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

Proprietary funds. The Alpena Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewage fund at the end of the year amounted to \$1,934,505. The change in net assets for the funds was \$41,633. Other factors concerning the finances of this fund have already been addressed in the discussion of the Alpena Township's business-type activities.

Alpena Township Management's Discussion and Analysis

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are as follows:

The Townships final budget and originally adopted budget were the same, thus there were no differences in budgets.

Capital Asset and Debt Administration

Capital assets. The Alpena Township's investment in capital assets for its governmental and business type activities as of March 31, 2008, amounts to \$11,626,710 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building and improvements, machinery and equipment and infrastructure.

ALPENA TOWNSHIP'S, Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Historical cost:						
Land	\$ 1,926,000	\$ 1,926,000	\$ 17,030,	\$ 17,030,	\$ 1,943,030	\$ 1,943,030
Buildings and improvements	1,472,835	1,441,472	199,788	199,788	1,672,623	1,641,260
Equipment	402,967	402,967	220,482	220,482	623,449	623,449
Infrastructure	-	-	12,284,549	12,263,984	12,284,549	12,263,984
	<u>3,801,802</u>	<u>3,770,439</u>	<u>12,721,849</u>	<u>12,701,284</u>	<u>16,523,651</u>	<u>16,471,723</u>
Accumulated depreciation						
Equipment	(1,317,090)	(1,226,779)	(3,579,851)	(3,377,961)	(4,896,941)	(4,604,740)
Net Capital Assets	<u>\$ 2,484,712</u>	<u>\$ 2,543,660</u>	<u>\$ 9141,998</u>	<u>\$ 9,323,323</u>	<u>\$ 11,626,710</u>	<u>\$ 11,866,983</u>

Long-term debt. At the end of the current fiscal year, the Alpena Township had total debt outstanding of \$3,645,000. All of this amount comprises general obligation bond debt backed by the full faith and credit of the government.

**Alpena Township
Management's Discussion and Analysis**

**ALPENA TOWNSHIP'S, Outstanding Debt
Bonds and Loans**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ -	\$ -	\$ 3,645,000	\$ 3,935,000	\$ 3,645,000	\$ 3,935,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,645,000</u>	<u>\$ 3,935,000</u>	<u>\$ 3,645,000</u>	<u>\$ 3,935,000</u>

ALPENA TOWNSHIP'S OUTSTANDING DEBT

Alpena Township's total debt was decreased by \$290,000 during the current fiscal year.

The Alpena Township and its Water and Sewer Authority both maintain an "AAA" rating from Standard & Poor's and Fitch.

Economic Factors and Next Year's Budgets and Rates

- The fiscal year end 2008 county wide unemployment rate is 9.6 percent compared to 7.2 percent for the state.
- The Alpena Township Board of Trustees is in the second year of a special assessment district for the Long Lake Park Road paving project. This project had approximately 63 benefitting owners with 21 paying off their special assessment when the project was completed. The estimated cost was lower than anticipated and was shared with 50% paid by the residents, 25% by the Alpena County Road Commission and 25% by the general fund.
- The Township is continuing to design a joint water/sewer system entitled Hamilton Road Water and Sewer Project with shared professional engineering service cost of \$44,500.00 shared with the City of Alpena. Partners within the township are being approached for the actual project.
- The Township has completed the management plan with the grant from Michigan Department of Environmental Quality for a Michigan Coastal Management Program for \$32,000.00 which required a 50% match. The management plan determined trails, parking, etc. for the acquired 133.39 acre parcel, known as Alpena Township Nature Preserve. This park is located on Lake Huron to provide recreational opportunities for its residents and tourists hoping to attract divers, hikers, bird viewers, etc. to the area.
- The Township's request for 1 mill for providing fire department services was passed by 70%. This millage will allow for continued operation of the department.

**Alpena Township
Management's Discussion and Analysis**

- fire suppression capability. Improvements to the Southside Station included replacing the interior south and east walls, painting of the building, new back garage door and driveways in the front and back.
- The U.S. 23 North corridor improvements through MDOT included replacement of approximately 500 feet of 12" water main and 1,000 feet of 6" water main and 3 new fire hydrants at little cost to the community.
- The township purchased a parcel of land adjacent to the north side of the township building for \$75,000.00. This has allowed for the fire department to do extra training on roof entry, fire suppression, rescue from burning buildings and other essential training operations. The opportunity to develop a driveway for the Alpena Huron Shores Ball Diamond Park located at the rear of the property is a bonus. It will allow for the safety of parents to drive into the rear of the property and the safety of employees leaving the building to exit in a safe manner.
- Several new programs have been initiated in the fire department, which have been low cost and provide an upgraded medical team and a haz-mat team. These programs are a cooperative effort with the city and county. While it costs the community money out of the general fund, most of the funding is from the DOD Homeland Security funds.

The above factors will still be affecting the financial situation of the Township for fiscal year 2008-2009 and we have budgeted accordingly.

Requests for Information

This financial report is designed to provide a general overview of the Alpena Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this Report or requests for additional information should be addressed to the Office of the Alpena Township Clerk, 4385 U.S. 23 North, Alpena, MI 49707.

Alpena Township

STATEMENT OF NET ASSETS

March 31, 2008

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 941,054	\$ 1,705,456	\$ 2,646,510
Receivables (net of allowance for uncollectible accounts)	62,989	3,399,867	3,462,856
Internal balances	-	-	-
Due from other governmental units	-	-	-
Advance to other governmental units	27,956	-	27,956
Capital assets	3,801,802	12,721,849	16,523,651
Accumulated depreciation	(1,317,091)	(3,579,851)	(4,896,942)
Total assets	<u>3,516,710</u>	<u>14,247,321</u>	<u>17,764,031</u>
LIABILITIES			
Accounts payable	-	111,188	111,188
Accrued payroll	3,149	-	3,149
Other liabilities	-	-	-
Due to other governmental units	-	-	-
Unearned revenue	-	3,053,387	3,053,387
Noncurrent liabilities			
Due within one year			
Compensated absences	108,432	6,243	114,675
Bonds and loans	-	225,000	225,000
Due in more than one year			
Compensated absences	-	-	-
Bonds and loans	-	3,386,138	3,386,138
Total liabilities	<u>111,581</u>	<u>6,781,956</u>	<u>6,893,537</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,484,711	5,530,860	8,015,571
Unrestricted	920,418	1,934,505	2,854,923
Total net assets	<u>\$ 3,405,129</u>	<u>\$ 7,465,365</u>	<u>\$ 10,870,494</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2008

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
Legislative	\$ 12,655	\$ -	\$ -	\$ -
General government	427,172	56,729	-	-
Public safety	782,850	-	47,398	-
Public works	224,016	-	-	-
Health and welfare	26,331	-	-	-
Culture and recreation	33,290	-	-	4,642
Other	285,107	26,048	-	-
Total governmental activities	<u>1,791,421</u>	<u>82,777</u>	<u>47,398</u>	<u>4,642</u>
Business-type activities:				
Water and Sewer	2,014,239	2,052,342	-	-
Total business-type activities	<u>2,014,239</u>	<u>2,052,342</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 3,805,660</u>	<u>\$ 2,135,119</u>	<u>\$ 47,398</u>	<u>\$ 4,642</u>
General revenues:				
Property taxes, levied for general purposes				
Property taxes, levied for fire department				
State sales tax				
Investment earnings				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning of the year				
Net assets - end of the year				

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (12,655)	\$ -	\$ (12,655)
(370,443)	-	(370,443)
(735,452)	-	(735,452)
(224,016)	-	(224,016)
(26,331)	-	(26,331)
(28,648)	-	(28,648)
(259,059)	-	(259,059)
<u>(1,656,604)</u>	<u>-</u>	<u>(1,656,604)</u>
-	38,103	38,103
-	38,103	38,103
<u>\$ (1,656,604)</u>	<u>\$ 38,103</u>	<u>\$ (1,618,501)</u>
429,318	-	429,318
306,743	-	306,743
673,418	-	673,418
40,291	27,022	67,313
<u>1,449,770</u>	<u>27,022</u>	<u>1,476,792</u>
(206,834)	65,125	(141,709)
3,611,963	7,400,240	11,012,203
<u>\$ 3,405,129</u>	<u>\$ 7,465,365</u>	<u>\$ 10,870,494</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2008

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 941,054
Receivables (net of allowance for uncollectible accounts)	62,989
Due from other funds	-
Due from other governmental units	-
Advance to other governmental units	<u>27,956</u>
Total assets	<u><u>\$ 1,031,999</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ -
Accrued payroll	<u>3,149</u>
Total liabilities	<u>3,149</u>
Fund Balances:	
Unreserved	-
Undesignated	<u>1,028,850</u>
Total fund balances	<u>1,028,850</u>
Total liabilities and fund balances	<u><u>\$ 1,031,999</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**

As of March 31, 2008

Fund balances - Total governmental funds		\$ 1,028,850
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.		
Governmental capital assets	\$ 3,801,802	
Less accumulated depreciation	<u>(1,317,091)</u>	
		2,484,711
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	<u>(108,432)</u>	
		<u>(108,432)</u>
Net Assets of Governmental Activities		<u>\$ 3,405,129</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended March 31, 2008

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
REVENUES	
Taxes	\$ 751,612
Licenses and permits	46,556
State sources	725,458
Interest and rents	40,291
Other	74,830
Total revenues	<u>1,638,747</u>
EXPENDITURES	
Legislative	12,655
General government	427,172
Public safety	
Liquor control	16,420
Fire	646,113
Crossing guards	3,203
Building inspector	59,810
Zoning and appeals board	14,218
Hydrant rental	53,000
Ordinance enforcement	21,449
Public works	224,016
Health and welfare	26,331
Culture and recreation	33,290
Other	184,808
Capital outlay	54,161
Total expenditures	<u>1,776,646</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(137,899)
FUND BALANCES , beginning of the year	<u>1,166,749</u>
FUND BALANCES , end of the Year	<u><u>\$ 1,028,850</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Year Ended March 31, 2008

Net change in fund balances - Total governmental funds		\$ (137,899)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets		
Less current year depreciation	<u>(58,947)</u>	(58,947)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences	<u>(9,988)</u>	<u>(9,988)</u>
Change in Net Assets of Governmental Activities		<u>\$ (206,834)</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2008

	Business-type Activities Enterprise Funds
	Water and Sewer Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,705,456
Receivables (net of allowance for uncollectible accounts)	3,399,867
Total current assets	5,105,323
Noncurrent assets	
Property and equipment	12,721,849
Accumulated depreciation	(3,579,851)
Total noncurrent assets	9,141,998
Total assets	14,247,321
LIABILITIES	
Current liabilities	
Accounts payable	111,188
Accrued payroll	-
Other liabilities	6,243
Due to other funds	-
Due to other governmental units	-
Unearned revenue	3,053,387
Current portion of long-term debt	225,000
Total current liabilities	3,395,818
Noncurrent liabilities	
Long-term debt	3,386,138
Total noncurrent liabilities	3,386,138
Total liabilities	6,781,956
NET ASSETS	
Invested in capital assets, net of related debt	5,530,860
Unrestricted	1,934,505
Total net assets	\$ 7,465,365

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF REVENUES, EXPENSE AND CHANGES IN NET FUND ASSETS
PROPRIETARY FUNDS**

For the Year Ended March 31, 2008

	Business-type Activities Enterprise Funds
	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 1,527,843
Total operating revenues	<u>1,527,843</u>
OPERATING EXPENSES	
Salaries and fringe benefits	180,782
Purchased water and sewer services	1,108,355
Supplies	8,284
Utilities	36,295
Repairs	185,475
Depreciation	201,889
Other	135,052
Total operating expenses	<u>1,856,132</u>
OPERATING INCOME (LOSS)	<u>(328,289)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest earned	27,022
Special assessments	494,563
Unit benefit charges	29,936
Interest expense	(158,107)
Total nonoperating revenues (expenses)	<u>393,414</u>
CHANGE IN NET ASSETS	65,125
NET ASSETS , beginning of the year	<u>7,400,240</u>
NET ASSETS , end of the year	<u><u>\$ 7,465,365</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended March 31, 2008

	<u>Business-type Activities Enterprise Funds</u>
	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,521,174
Cash payments to suppliers for goods and services	(1,431,547)
Cash payments to employees for services	<u>(180,782)</u>
Net Cash Provided By (Used In) Operating Activities	<u>(91,155)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on bonds	(290,000)
Interest paid on bonds	(156,189)
Cash received from special assessments	494,563
Cash received from unit benefit charges	29,936
Advances from General Fund	-
Acquisition of capital assets	<u>(20,565)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>57,745</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>27,022</u>
Net Cash Provided By (Used In) Investing Activities	<u>27,022</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,388)
CASH AND CASH EQUIVALENTS, beginning of the year	<u>1,711,844</u>
CASH AND CASH EQUIVALENTS, end of the year	<u><u>\$ 1,705,456</u></u>

The accompanying notes to financial statements are an integral part of this statement.

For the Year Ended March 31, 2008

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

March 31, 2008

	Agency Fund
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 16,001
	<hr/>
Total assets	16,001
	<hr/>
LIABILITIES	
Accounts payable	16,001
	<hr/>
Total liabilities	16,001
	<hr/>
NET ASSETS	
Unrestricted	\$ -
	<hr/> <hr/>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of Alpena Township conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity.

Description of Township Operations. Alpena Township is a political entity situated within the County of Alpena which is located in the northeastern region of the lower peninsula of Michigan. The governing body of the Township is the Township Board, composed of the supervisor, the clerk, the treasurer, and four trustees. The Township supervisor acts as the chief administrative and executive officer.

The Township provides services to its citizens in general government, public safety, public works, health and welfare, and recreation and culture. Revenues for these services are provided chiefly by taxes and state shared revenues.

B. Government-Wide and Fund Financial Statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Basis of Presentation.

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The financial activities of the Township are recorded in separate funds and account groups, described as follows:

Governmental Fund Types. General Fund. This fund includes the general operations of the Township and transactions not included in other funds. The revenues of this fund are derived primarily from property taxes and state shared revenues.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Proprietary Fund Types. Enterprise Fund. This fund records operations that provide services financed primarily by user fees or where periodic measurement of net income is deemed appropriate. This fund is solely the Water Supply and Sewage Disposal System Fund. Special assessment revenues are recorded in this fund. In addition, special assessment receivables have been recorded. Revenue from the sale of water and sewage services is recorded based on the services consumed.

Fiduciary Fund Types. Trust and Agency Fund. This fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds.

D. Measurement Focus/Basis of Accounting.

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Alpena Township conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds. The Governmental Fund Types (General) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Proprietary Funds. The Proprietary Funds Types (Enterprise) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. The Township applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary Funds. The Fiduciary Funds are maintained on a cash basis which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

Cash and Cash Equivalents. For purposes of these financial statements, cash equivalents include time deposits, certificates of deposit, and all other highly liquid deposits with maturities of three months or less.

Inventories. Inventories are not considered significant and are recorded as expenditures when purchased.

Capital Assets. Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings - 50 years
Office Equipment - 5 to 7 years
Computer Equipment - 3 to 7 years
Water and Sewer Lines - 50 to 75 years

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Interfund balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Employee Vacation and Sick Leave. After one year of employment, Township employees are granted vacation leave in varying amounts based on length of service and other contractual provisions. Vacation pay is fully vested when earned. Employees, other than Firefighters, must use all vacation time in the year it is earned. Sick leave accumulates at various rates stipulated under certain contractual provisions. Upon retirement employees are paid for one-half of their unused sick leave. Firefighters may accumulate 1,800 hours of sick leave. Other employees may accumulate 800 hours of sick leave.

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets. Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Property Taxes. Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. The taxes are due on February 14 with the final collection date of February 28 before they are added to the delinquent County of Alpena tax rolls. Assessed values are established annually and are equalized by the State at an estimated 50% of current market value. Property in Alpena Township for the 2007 levy was assessed at a taxable value of \$323,382,356. The Township's general operating rate is currently 1.0150 mills and .95 mills for fire department operations and expenditures. On February 27, 2001, the electorate of the Township of Alpena passed an additional .21 mills (currently .2014 mills) to acquire, construct, furnish, and equip an Alpena County Community Events Center. With other governmental services, such as county, schools, and ambulance, Township residents pay a total of 22.8105 mills for homestead property and 40.8105 mills for nonhomestead property.

By agreement with the County of Alpena, delinquent real property taxes are purchased by the County of Alpena. The proceeds from the County's purchase of the delinquent taxes are used to liquidate the Township's delinquent real property taxes receivables.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is not employed by the Township. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Reclassification. Certain items reported in the March 31, 2007, financial statements may have been reclassified to conform with the presentation for the current year.

NOTE 2--LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the operating budget, Township departments prepare and submit their proposed operating budgets commencing the following April 1. A public hearing is conducted to obtain taxpayer comments. Prior to March 31, the budget is adopted by the Township Board. Budgeted amounts are as originally adopted, or as amended by the Township Board during the year. Unused appropriations at March 31, are not carried forward to the following year. The budget for the year ended March 31, 2008 was adopted on a functional basis.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Local Unit's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Alpena Township for these budgetary funds were adopted on a function level. Detail at the activity and departmental level is presented in the General Fund Combining Statement for the benefit of management.

During the year ended March 31, 2008, Alpena Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Public safety	15,325	16,420	1,095
Liquor control	32,219	59,810	27,591
Building Inspector	8,000	21,449	13,449
Ordinance Enforcement	25,000	26,331	1,331
Health and Welfare	177,438	184,808	7,370
Other			

Accumulated Fund Deficits. Alpena Township had no funds with an accumulated fund balance/retained earnings deficit at March 31, 2008

NOTE 3--DEPOSITS WITH FINANCIAL INSTITUTIONS.

The Township maintains separate cash accounts for each of its funds. Cash is not pooled.

For the year ended March 31, 2008 the carrying amount of the Township's deposits with financial institutions was \$2,646,510 and the bank balance was \$3,026,969. Of the bank balance, \$200,000 was covered by federal depository insurance (FDIC), with the remaining balance of \$2,826,696 being uninsured.

Statutes authorize the Township to invest as follows:

- (a) In bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or a savings and loan association which is a member of the federal deposit insurance corporation or a credit union.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

- (c) which is insured by the national credit union administration, but only if the banksavings and loan association or credit union is an eligible Michigan depository.
- (d) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. No more than 50% of any fund may be invested in commercial paper at any time.
- (e) In United States government or federal agency obligation repurchase agreements.
- (f) In bankers' acceptances of United States banks.
- (g) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

NOTE 4--CAPITAL ASSETS.

Capital asset activity of the primary government for the current year was as follows:

	Primary Government			
	Balances April 1, 2007	Additions	(Deletions)	Balances March 31, 2008
Governmental activities:				
Historical cost:				
Land	\$ 1,926,000	\$ -	\$ -	\$ 1,926,000
Buildings and improvements	1,441,472	31,363	-	1,472,835
Equipment	402,967	-	-	402,967
	<u>3,770,439</u>	<u>31,363</u>	<u>-</u>	<u>3,801,802</u>
Allowance for depreciation:				
Buildings and improvements	(1,063,174)	(30,878)	-	(1,094,052)
Equipment	(163,605)	(59,433)	-	(223,038)
	<u>(1,226,779)</u>	<u>(90,311)</u>	<u>-</u>	<u>(1,317,090)</u>
Net Capital Assets	<u>\$ 2,543,660</u>	<u>\$ (58,948)</u>	<u>\$ -</u>	<u>\$ 2,484,712</u>
Business-type activities:				
Historical cost:				
Land	\$ 17,030	\$ -	\$ -	\$ 17,030
Buildings and improvements	199,788	-	-	199,788
Equipment	220,482	-	-	220,482
Infrastructure	12,263,984	20,565	-	12,284,549
	<u>12,701,284</u>	<u>20,565</u>	<u>-</u>	<u>12,721,849</u>
Allowance for depreciation:	<u>(3,377,961)</u>	<u>(201,890)</u>	<u>-</u>	<u>(3,579,851)</u>
Net Capital Assets	<u>\$ 9,323,323</u>	<u>\$ (181,325)</u>	<u>\$ -</u>	<u>\$ 9,141,998</u>

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 6--LONG-TERM DEBT (including current portions).

Long-term debt (including current portions) of the Township is as follows:

	Balances, <u>Apr 01, 07</u>	<u>Additions</u>	<u>(Reductions)</u>	Balances, <u>Mar 31,08</u>
Enterprise Fund:				
Water and sewer bonds				
Alpena County general obligation refunding bonds, dated 1989, 1989-2008 (contractual obligation)	\$ 65,000	\$ -	\$ (90,000)	\$ 65,000
Alpena Township, special assessment Bonds, dated 2005, 2007-2025	3,800,000	-	200,000	3,600,000
Alpena Township special assessment bonds, dated 1989, 1989-2010	<u>70,000</u>	<u>-</u>	<u>(25,000)</u>	<u>45,000</u>
Totals	<u>\$ 3,935,000</u>	<u>\$ -</u>	<u>\$ (290,000)</u>	<u>\$ 3,645,000</u>

**General Long-Term Debt
Account Group:**

Vacation and sick leave	<u>\$ 103,447</u>	<u>\$ 11,228</u>	<u>\$ -</u>	<u>\$ 114,675</u>
Totals	<u>\$ 103,447</u>	<u>\$ 11,228</u>	<u>\$ -</u>	<u>\$ 103,447</u>

The Water and Sewer Bonds are contractual obligations between Alpena Township and the County of Alpena. These bonds are secured by special assessments levied against benefiting real property located within the Township. In 1989, the Township retired six bond issues through advance refunding. See Note 6 for a more detailed explanation.

The annual requirements to pay principal and interest on the bonds outstanding at March 31, 2009 through 2012, are as follows:

	<u>Enterprise Fund</u>
2009	\$ 362,338
2010	347,900
2011	320,900
2012	313,900
2013	306,650
2014 – 2018	1,420,550
2019 – 2023	1,225,900
2024 – 2028	657,700

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 7--BONDS

On July 1, 2005 Alpena Township issued \$3,915,000 of Special Assessment Water bonds an average interest rate of 3.75 percent for the construction of a water main on US 23 south to the southern line of the Township. The bonds are issued in anticipation of the collection of future due installments of special assessments for water improvements in the US south water project special assessment district in the township. The special assessments and interest and investment income thereon shall be sufficient to pay principal and interest on the bonds when due.

NOTE 8--RETIREMENT PLAN.

The Township provides pension benefits for all of its employees who are full-time through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate effective the first August after their employment. The employee and the Township contribute a combined amount equal to 10% of the employee's base salary annually. The Township's share of this contribution is 95%, while the employee is required to contribute 5%. In addition, employees may make voluntary contributions of up to 10% of their base salary. Contributions made on behalf of an employee become vested immediately.

Together the Township and the covered employees made the required 10% contribution, amounting to \$55,891 and \$56,360 as of March 31, 2008 and 2007, respectively. In addition, certain employees made voluntary contributions of \$18,851 and \$26,336 as of March 31, 2008 and 2007, respectively.

NOTE 9--FUND EQUITY.

Reserves of \$ 0 and \$49,874 exist in the Water Supply and Sewage Disposal System Fund for bonds and replacement at March 31, 2008 and 2007, respectively.

NOTE 10--RISK MANAGEMENT.

The Township is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to employees. The Township has purchased commercial insurance for fleet equipment and tort claims, boiler and machinery, certain property and equipment damage and theft, employee theft, and limited tort claims for specific Township facilities or events.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year.

The Township pays unemployment claims on a reimbursement basis.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 11--CONTINGENT LIABILITIES.

There are various claims and legal actions pending against the Township and its various operating units. The Township is defending itself against these claims and actions. In the opinion of Township management, the ultimate amount of loss, if any at this time, will not be material to the financial position of the Township.

Water and sewer services are purchased from the City of Alpena, which charges an estimated unit charge. The Township and City annually reconcile any differences to actual costs, with gain or loss being recognized in a subsequent period. The effect on the financial statements cannot be determined at this time.

Alpena Township has been named as a defendant in appeals of personal property tax valuation by Alpena Power Company and Michigan Consolidated Gas Company. The Scope of valuation at issue is not known at this time.

In addition, the Township, along with other entities, has been identified as a contributor to waste at a landfill that is in the remedial investigation phase. As neither an owner, operator, nor generator of hazardous waste to the site, it is anticipated that the Township will be denying any responsibility for any remedial efforts at the site.

NOTE 12--BUILDING CODE ACTIVITY.

State of Michigan Construction Code Act (Public Act 245 of 1999) requires building code activity to be separated from other general fund activity effective January 1, 2000. Building code activity for the fiscal year ending March 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Building code revenue	\$ 43,174	\$ 43,261
Building code expenditures		
Direct costs		
Inspector's wages	32,312	34,280
Secretary's wages	13,441	14,043
Fringe benefits	34,714	32,035,
Travel	<u>5,913</u>	<u>3,751</u>
	86,380	84,869
Indirect overhead		
Building insurance	-	-
Utilities	1,636	1,853
Telephone	1,508	1,510
Office supplies and printing	3,182	1,818
Legal and professional	4,455	14,344
Other	<u>6,973</u>	<u>8,482</u>
	17,754	28,007,
Total expenditures	<u>104,134</u>	<u>112,116</u>
Excess revenue over (under) expenditures	\$ <u>(60,960)</u>	\$ <u>(68,852)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Alpena Township

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended March 31, 2008

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$ 715,350	\$ 715,350	\$ 751,612	\$ 36,262
Licenses and permits	57,575	57,575	46,556	(11,019)
State sources	617,062	617,062	725,458	108,396
Interest and rents	16,000	16,000	40,291	24,291
Other	39,300	39,300	74,830	35,530
Total revenues	<u>1,445,287</u>	<u>1,445,287</u>	<u>1,638,747</u>	<u>193,460</u>
EXPENDITURES				
Legislative	14,348	14,348	12,655	1,693
General government	494,043	494,043	427,172	66,871
Public safety				
Liquor control	15,325	15,325	16,420	(1,095)
Fire	942,904	942,904	646,113	296,791
Crossing guards	3,500	3,500	3,203	297
Building inspector	32,219	32,219	59,810	(27,591)
Zoning and appeals board	14,550	14,550	14,218	332
Hydrant rental	53,000	53,000	53,000	-
Ordinance enforcement	8,000	8,000	21,449	(13,449)
Public works	339,499	339,499	224,016	115,483
Health and welfare	25,000	25,000	26,331	(1,331)
Culture and recreation	33,500	33,500	33,290	210
Other	177,438	177,438	184,808	(7,370)
Capital outlay	320,000	320,000	54,161	265,839
Total expenditures	<u>2,473,326</u>	<u>2,473,326</u>	<u>1,776,646</u>	<u>696,680</u>
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	<u>(1,028,039)</u>	<u>(1,028,039)</u>	<u>(137,899)</u>	<u>890,140</u>
FUND BALANCES, April 1	<u>1,166,749</u>	<u>1,166,749</u>	<u>1,166,749</u>	<u>-</u>
FUND BALANCE, March 31	<u>\$ 138,710</u>	<u>\$ 138,710</u>	<u>\$ 1,028,850</u>	<u>\$ 890,140</u>

INDIVIDUAL FUND STATEMENTS

Alpena Township

General Fund

COMPARATIVE BALANCE SHEET

	March 31	
	2008	2007
ASSETS		
Cash	\$ 53,859	\$ 60,252
Certificates of deposit	887,195	1,021,709
Taxes receivable, current	62,989	56,832
Due from other governmental units	-	-
Advance to other governmental unit	27,956	27,956
Due from other funds	-	-
Prepaid expenses	-	-
	<u>\$ 1,031,999</u>	<u>\$ 1,166,749</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ -	\$ -
Accrued payroll	3,149	-
Due to other governmental units	-	-
	<u>3,149</u>	<u>-</u>
Fund Balances		
Unreserved	<u>1,028,850</u>	<u>1,166,749</u>
	<u>1,028,850</u>	<u>1,166,749</u>
	<u>\$ 1,031,999</u>	<u>\$ 1,166,749</u>

Alpena Township

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

	Year Ended March 31		
	2008 Budget	2008 Actual	2007 Actual
REVENUES			
TAXES			
Property taxes	\$ 638,900	\$ 649,532	\$ 621,712
Other	76,450	102,080	98,725
	<u>715,350</u>	<u>751,612</u>	<u>720,437</u>
LICENSES AND PERMITS			
Building permits	55,000	43,261	42,210
Planning, zoning and appeals	2,575	3,295	1,550
Other	-	-	-
	<u>57,575</u>	<u>46,556</u>	<u>43,760</u>
STATE SOURCES			
Sales tax	601,062	673,418	667,847
Land tax	8,000	7,916	7,916
Liquor control	8,000	9,566	8,676
Other	-	34,558	30,490
	<u>617,062</u>	<u>725,458</u>	<u>714,929</u>
INTEREST AND RENTS	<u>16,000</u>	<u>40,291</u>	<u>38,362</u>
OTHER			
Miscellaneous	39,300	74,830	61,989
Total revenues	<u>1,445,287</u>	<u>1,638,747</u>	<u>1,579,477</u>
EXPENDITURES			
LEGISLATIVE			
Trustees	<u>14,348</u>	<u>12,655</u>	<u>9,238</u>
GENERAL GOVERNMENT			
Supervisor	40,520	41,299	40,520
Clerical	82,500	98,996	99,176
Elections	5,000	8,105	10,025
Auditing	7,000	8,198	7,648
Assessor	32,219	32,857	32,311
Legal	28,000	37,986	22,531
Clerk	38,477	39,217	38,479
Board of review	1,700	1,860	1,680
Treasurer	38,477	39,217	38,477
Data processing	12,000	12,048	11,586

Alpena Township

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

	Year Ended March 31		
	2008 Budget	2008 Actual	2007 Actual
EXPENDITURES (continued)			
GENERAL GOVERNMENT (continued)			
Janitor	\$ 7,500	\$ 8,298	\$ 7,866
Building insurance	9,000	1,270	1,398
Snowplowing	3,000	1,988	2,342
Refuse	350	282	324
Electric	3,000	2,855	3,398
Heat	5,000	4,000	3,699
Water and sewer	1,000	375	500
Maintenance, buildings	20,000	2,136	15,245
Maintenance, grounds	55,000	423	727
Workers' compensation	4,500	3,015	4,359
Office supplies	11,500	8,716	11,416
Postage	20,000	15,624	20,855
Telephone	6,000	6,420	5,873
Transportation and travel	15,000	9,701	13,265
Printing and publishing	2,000	1,913	1,136
Engineering	1,000	-	5,555
Dues and memberships	8,800	9,043	8,585
Refunds and rebates	2,500	10,995	10,153
Planning	7,000	882	570
Miscellaneous	6,000	5,948	6,686
Computer	20,000	13,505	8,812
	<u>494,043</u>	<u>427,172</u>	<u>435,197</u>
PUBLIC SAFETY, LIQUOR CONTROL			
Salaries	14,325	14,137	13,756
Other	1,000	2,283	1,851
	<u>15,325</u>	<u>16,420</u>	<u>15,607</u>
PUBLIC SAFETY, FIRE			
Salaries	287,000	295,413	307,057
Volunteer fees	35,000	23,072	24,035
Life insurance	1,500	1,585	1,496
Payroll taxes	24,100	24,364	25,329
Hospitalization	103,960	97,725	88,926

Alpena Township

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

	Year Ended March 31		
	2008 Budget	2008 Actual	2007 Actual
EXPENDITURES (continued)			
PUBLIC SAFETY, FIRE (continued)			
Vehicle insurance	\$ 9,000	\$ 5,943	\$ 7,001
Retirement	22,000	27,672	6,211
Volunteer insurance	2,214	2,214	2,214
Workers' compensation	20,000	17,208	15,657
Legal	8,000	6,733	481
Fire prevention materials	1,200	664	471
Operating supplies	14,000	11,024	7,079
Gas and oil	4,000	6,411	3,224
Bedding	-	-	-
Uniforms	30,000	1,126	3,976
Volunteer gear	32,780	11,878	639
Fit-out gear	-	10,098	843
Schools and conventions	1,500	2,154	664
Telephone	3,500	3,183	2,862
Electric	5,000	3,777	3,779
Heat	8,000	6,279	5,900
Water and sewer	1,200	1,055	774
Maintenance and repairs		51,329	18,021
Building and grounds	275,000	3,825	749
Dues and memberships	1,000	471	640
Physicals	6,000	11,110	1,881
Miscellaneous	46,950	19,800	13,940
	<u>942,904</u>	<u>646,113</u>	<u>543,849</u>
PUBLIC SAFETY, CROSSING GUARDS	<u>3,500</u>	<u>3,203</u>	<u>3,148</u>
PUBLIC SAFETY, BUILDING INSPECTOR	<u>32,219</u>	<u>59,810</u>	<u>58,925</u>
PUBLIC SAFETY, ZONING AND APPEALS BOARD	<u>14,550</u>	<u>14,218</u>	<u>20,410</u>
PUBLIC SAFETY, HYDRANT RENTAL	<u>53,000</u>	<u>53,000</u>	<u>50,000</u>
PUBLIC SAFETY, ORDINANCE ENFORCEMENT	<u>8,000</u>	<u>21,449</u>	<u>6,851</u>

Alpena Township

General Fund

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

	Year Ended March 31		
	2008 Budget	2008 Actual	2007 Actual
EXPENDITURES (continued)			
PUBLIC WORKS			
Street lighting	\$ 12,000	\$ 14,113	\$ 11,912
Highways, streets and bridges	327,499	209,903	148,986
	<u>339,499</u>	<u>224,016</u>	<u>160,898</u>
HEALTH AND WELFARE	<u>25,000</u>	<u>26,331</u>	<u>22,230</u>
CULTURE AND RECREATION			
Cultural grant	28,500	33,290	26,293
Recreation	5,000		-
	<u>33,500</u>	<u>33,290</u>	<u>26,293</u>
OTHER			
Hospitalization	117,646	114,950	114,678
Life insurance	1,617	1,751	1,825
Retirement	28,375	37,443	40,389
Social security	21,800	1,150	61
Insurance and bonds	8,000	12,301	7,954
Contingency	-	-	-
Other		17,213	26,189
	<u>177,438</u>	<u>184,808</u>	<u>191,096</u>
CAPITAL OUTLAY	<u>320,000</u>	<u>54,161</u>	<u>6,803</u>
Total expenditures	<u>2,473,326</u>	<u>1,776,646</u>	<u>1,550,545</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,028,039)	(137,899)	28,932
FUND BALANCES, April 1	<u>1,166,749</u>	<u>1,166,749</u>	<u>1,137,817</u>
FUND BALANCES, MARCH 31	<u>\$ 138,710</u>	<u>\$ 1,028,850</u>	<u>\$ 1,166,749</u>

Alpena Township

Trust and Agency Fund

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS**

	<u>Balances, April 1, 2007</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balances, March 31, 2008</u>
ASSETS				
Cash	\$ 16,001	\$ 9,504,906	\$ 9,508,539	\$ 12,368
	<u>\$ 16,001</u>	<u>\$ 9,504,906</u>	<u>\$ 9,508,539</u>	<u>\$ 12,368</u>
LIABILITIES AND EQUITY				
Due to other funds	\$ -	\$ 1,039,425	\$ 1,039,425	\$ -
Due to other governmental units	<u>16,001</u>	<u>8,465,481</u>	<u>8,469,114</u>	<u>12,368</u>
	<u>\$ 16,001</u>	<u>\$ 9,504,906</u>	<u>\$ 9,508,539</u>	<u>\$ 12,368</u>

Alpena Township

SCHEDULE OF INDEBTEDNESS

March 31, 2008

	Interest Rate	Date of Maturity	Principal Payable	Annual Interest Payable
ENTERPRISE FUND				
Alpena Township				
1989 Special Assess-	7.50%	2008/09	25,000	2,438
ment Bonds	7.50%	2009/10	20,000	750
Date of Issue:			45,000	3,188
May 1, 1989				
Amount of Issue:				
\$870,000				
Alpena Township				
2005 Special Assess-	3.50%	2008/09	200,000	134,900
ment Water Bonds	3.50%	2009/10	200,000	127,900
Date of Issue	3.50%	2010/11	200,000	120,900
July 1, 2005	3.50%	2011/12	200,000	113,900
Amount of Issue	3.75%	2012/13	200,000	106,650
\$3,915,000	3.75%	2013/14	200,000	99,150
	3.75%	2014/15	200,000	91,650
	3.75%	2015/16	200,000	84,150
	3.80%	2016/17	200,000	76,600
	3.80%	2017/18	200,000	69,000
	4.00%	2018/19	200,000	61,200
	4.00%	2019/20	200,000	53,200
	4.00%	2020/21	200,000	45,200
	4.00%	2021/22	200,000	37,200
	4.10%	2022/23	200,000	29,100
	4.10%	2023/24	200,000	20,900
	4.20%	2024/25	200,000	12,600
	4.20%	2025/26	200,000	4,200
			3,600,000	1,288,400
Totals			\$ 3,645,000	\$ 1,291,588



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RETIRED
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

To the Board of Trustees
Alpena Township
Alpena, Michigan

We have completed our engagement of the audit of the financial statements of Alpena Township (the Township) for the year ended March 31, 2008. In addition to our audit report, we are providing the following:

Letter of increased audit communications as prescribed by Statement on Auditing Standards (SAS) 112

Letter of required audit communication, as prescribed by SAS 114

Other recommendations and informational comments which impact the Township

	<u>Page</u>
Internal Control Communications (SAS 112 Letter)	2
Audit Communications (SAS 114 Letter)	4

We appreciate the opportunity to serve Alpena Township. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Straley, Ilsley & Lamp

September 29, 2008



Certified Public Accountants

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INTERNAL CONTROL COMMUNICATIONS

To the Board of Trustees
Alpena Township
Alpena, Michigan

New auditing rules have resulted in changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the township board members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alpena Township as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Alpena Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We consider the following deficiencies to be material weaknesses:

- **Financial Statement Presentation.** As is the case with many smaller and medium-sized entities, Alpena Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

As part of our consideration of the internal control over financial reporting, we as auditors are not allowed to be considered to be part of Alpena Township's internal controls. In taking this required position, we must consider whether Alpena Township has the ability, on its own, to monitor and report financial activity in accordance with our professional standards without auditor intervention.

Due to the complexity of the required government-wide financial statements, proprietary fund reporting and related note disclosures, the Township does not demonstrate the expertise to report in accordance with U.S. generally accepted accounting principles without auditor intervention.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result, Alpena Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

- **Taxes Receivable.** During our fieldwork we recorded taxes receivable of \$54,473 and a like amount of the revenue that had not been recorded. We also recorded the property tax administration fee and revenue of \$8,516. Last year's taxes receivable and administration fees of \$56,830 were reversed through audit adjustments.
- **Bonds and Bond Interest Payable.** During our review of the U.S. 23 South project we noted that payment for bond principal is recorded as an expense instead of a reduction of bonds payable in the amount of \$290,000. We also noted bond interest expense was misclassified as a \$69,200 expense of the U.S. 23 South project. These items were corrected through audit adjustments.

- **Depreciation.** During our review of the Water and Sewer Fund we noted the Township had not recorded depreciation expense for the year. Through an audit adjustment depreciation expense and accumulated depreciation of \$201,890 was recorded.
- **Capitalization of Construction Costs.** During the current year certain expenses in the Township Water and Sewer Fund that should have been capitalized were not capitalized. These expenses involved the U.S. 23 South project. Approximately \$640,000 in costs associated with this project was capitalized as well as correcting certain interfund transfers. This was corrected through audit adjustments.
- **Accounts Payable.** At year end it was determined that accounts payable in the Water and Sewer Fund had not been posted. An audit adjustment of approximately \$198,000 was recorded to properly reflect the amount of payables.

We consider the following to be significant deficiencies in internal control over financial reporting:

- **Audit Journal Entries.** As a result of auditing procedures we performed, we detected and proposed various nonmaterial journal entries. In all instances, the Township posted the journal entries (such as interest earned and unbilled revenue) we suggested.
- **Bank Reconciliations.** Upon arrival for audit fieldwork we discovered that the Water and Sewer bank account did not reconcile. Each month the general ledger should be reconciled to the bank accounts.

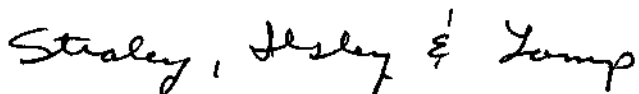
Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We wish to thank the staff of Alpena Township for their assistance during the audit.

This report is intended solely for the information and use of the management, the Board of Trustees, and others within the organization, and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve Alpena Township. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,



September 29, 2008



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AUDIT COMMUNICATIONS

To the Board of Trustees
Alpena Township
Alpena, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alpena Township for the year ended March 31, 2008, and have issued our report thereon dated September 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards.

As stated in our engagement letter dated March 27, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Alpena Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Alpena Township's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 11, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the financial statements. No new accounting policies

were adopted and the application of existing policies was not changed during the year ended March 31, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 15, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Eleven new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor's work to those charged with governance (the Board of Trustees)

As you can see, auditors will spend significantly more time working with all aspects of your internal control. These new rules are not limited to the public sector – they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.). These new rules have impacted audited organizations in two ways: your finance staff has incurred more time and effort in preparation for the audit, and the audit process has required additional time.

Other Matters

1. Recent Pronouncements. The Governmental Accounting Standards Board and Michigan Department of Treasury, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way Alpena Township maintains its financial records:
 - A. **GASB Statement No. 43 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** This statement establishes uniform reporting standards for other postemployment benefit plans. The financial statements focus on reporting current financial information about plan net assets and required note disclosures include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. The requirements of this statement are effective for financial statements of the Township for the year ended March 31, 2009.
 - B. **GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the Township to accrue and report an actuarially computed liability for any future postemployment benefit other than pensions. The requirements

of this statement are effective for financial statements of the Township for the year ended March 31, 2010.

- C. GASB Statement No. 49 Accounting and Financial Reporting for Pollution Remediation Obligations.** This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This will require the Township to capitalize pollution remediation outlays in the future. The requirements of this statement are effective for financial statements of the Township for the year ended March 31, 2009.
- D. GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets.** This statement establishes consistent standards as to whether intangible assets including easements, timber rights, and computer software should be considered capital assets for financial reporting purposes. The requirements of this statement are effective for financial statements of the Township for the year ended March 31, 2010.
- E. GASB Statement No. 52 Land and Other Real Estate Held as Investments by Endowments.** This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of the endowments. Reporting land and other real estate held as investments at fair value enhances user's ability to meaningfully evaluate an entity's investment decisions and performance. The requirements of this statement are effective for financial statements of the Township for the year ended March 31, 2009.

2. Issues Likely to Impact Governments.

- A. Government Deposit Insurance.** Under Michigan Law, governmental units, including townships, are directed and limited where they may invest or deposit public funds. Depository institutions such as banks, credit unions, or savings and loans may offer FDIC insurance coverage.

The insurance coverage of a township's accounts depends upon the type of deposit. All time and savings deposits (which include NOW accounts, CD's, money market deposit accounts, and other interest-bearing accounts) held by a township in a particular insured depository institution within the State are added together and insured up to \$100,000. Separately, all demand deposits (checking accounts) held in the same insured depository institution within the same State are added together and insured up to \$100,000. Special rules apply to funds that are required to be set aside for debt owed to holders of notes or bonds – additional insured coverage may be available for the beneficial interest of each bondholder.

Recent market events have indicated that certain financial institutions, including some within the Midwest region, may be experiencing financial distress. In the event of a regulatory takeover of a financial institution, uninsured or underinsured depositors may not receive all of their funds back after the regulatory takeover.

We wish to thank the staff of Alpena Township for their assistance during the audit.

This report is intended solely for the information and use of Alpena Township Board of Trustees, Michigan Department of Treasury, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve Alpena Township. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley, Hsley & Lamp

September 29, 2008